Press Release

Kamat Hotels (India) Limited

January 24, 2023

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	297.50	ACUITE C | Assigned | Provisional To Final	-
Non Convertible Debentures (NCD)	27.50	Provisional | ACUITE C | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	325.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite' has converted and assigned its long term rating of **' ACUITE C' (read as ACUITE C)** from **'Provisional ACUITE C' (read as Provisional Acuite C)** on the Rs 297.50 Cr Non Convertible Debentures of Kamat Hotels (India) Ltd (KHIL).

The final conversion reflects satisfactory completion of the documentation as required by Acuite` with the receipt of following final documents from the company:
1. Signed and executed trust deed
2. Final term sheet
3. Confirmation from the trustee regarding the compliance with all the terms and conditions
4. Legal opinion

The long term rating on the Rs.27.5 Cr proposed NCD continues to remain **provisional ACUITE C (Read as Provisional ACUITE C)** and the final rating is subject to receipt of pending documentation.
1. Receipt of the executed trust deed
2. Receipt of the final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions
3. Legal opinion on the transaction, if applicable

Rationale for rating assigned

The rating has been assigned based on the group's proven track record as promoters in the hospitality industry for over 35 years. The group has various established hotel brands accross Maharashtra, Goa and Odisha such as The Orchid, Fort Jadhavgadh and Lotus Resorts. Further, the rating factors in the improvement in operational metrics after the Covid pandemic with an average occupancy in key properties (which account for more than 80% of the revenue) rising to 80% in 9M FY2023 as compared to 65% in FY 2022 and 38% in FY 2021. However, the rating is constrained by below average financial risk profile due to liquidity issues faced by the company in the past which had resulted in take over of bank facilities by Asset reconstruction companies (ARCs) in FY 2015 & 2016. Further, the company had also defaulted in its payment to ARCs and opted for a one time settlement (OTS). Going forward, Acuite' expects the financial risk profile and liquidity of the company to improve with refinancing through the issue of NCD, .

About Company

Kamat Hotels (India) Limited (KHIL) was founded in 1986 and is one of The Kamats Group's pioneering companies, with over 80 years of experience. KHIL is into many hospitality ventures other than hotels and restaurant such as timeshare, clubs, resorts, heritage hotels and much more across India. KHIL is also into Hotel Consultancy, setups, and other such related activities. It is located in Mumbai. The Group is headed by Dr Vithal Venkatesh Kamat who has been spearheading the Kamat Group growth. Now he is the Chief Mentor to the next generation, Mr Vishal Kamat and the host of Professional team members who work under his guidance and experience. KHIL's most globally recognized brand is THE ORCHID, An Ecotel Hotel, Asia's first chain of a 5- star, environment-sensitive hotel which has won over 95 National & International awards. The Orchid is in Mumbai, Pune and many more location. KHIL has grown in the past 29 years from a residential hotel to 13 Hotels properties in 4 & 5 Star categories and received 91 prestigious national and International awards under the vision of Dr. Vithal Venkatesh Kamat (CMD) and experienced hotel management Team. These hotels are situated in the prime locations in various cities like Mumbai, Pune, Bhubaneshwar, Konark, Shimla, Manali and Puri, Goa etc.

Standalone (Unsupported) Rating

ACUITE C and Provisional ACUITE C

Analytical Approach

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has considered the consolidated financial and business risk profile for Kamat Hotels (India)Limited (KHIL), Orchid Hotels Pune Pvt Ltd, Mahodadhi Palace Private Limited, Kamats Restaurants (India) Pvt Ltd, Fort Jadhavgadh Hotels Pvt Ltd and Orchid Hotels Eastern (I) Pvt Ltd.

Key Rating Drivers

Strengths

Established track record, along with the experienced management

KHIL is the flagship company of Kamat Group and is engaged in operating hotels for more than thirty five years. The group has presence primarily in Maharashtra, Goa and Odisha with established hotel brands such as The Orchid, Fort Jadhavgadh and Lotus resorts. Dr Vithal V. Kamat, Executive Chairman and Managing Director of the company has an experience of more than 38 years in the line of hospitality business. He also rendered consultancy services for formation of restaurants in other countries as well such as Europe, USA, Japan & Singapore. Mr Vishal Vithal Kamat, son of Vithal Kamat is supported and guided by his father towards achieving various milestones.

The operational metrics of the company have improved and have reverted to the preCovid levels in 9M FY 2023 after the prolonged pandemic. The average occupancy rate in key properties (which account for more than 80% of the revenue) rising to 80% in 9M FY2023 as compared to 65% in FY 2022 and 38% in FY 2021. Further, the room revenue from these properties has increased to Rs 78.94 Cr in 9M FY2022 as against Rs 43 Cr in FY 2021 and Rs 17.8 Cr in FY 2020. Further, the average room rates have also improved in 9MFY 2022 as compared to FY 2022 and FY 2021.

Weaknesses

Below Average Financial Risk Profile

The company's financial risk profile remains below average, with losses in the past and present resulting in an erosion of net worth, which stood at Rs 182 crore as of March 31, 2022. Further, due to the losses the company does not have sufficient net cash accruals to pay its interest and repayment obligation resulted in poor coverage indicators with Debt-service-coverage-ratio being stood at 0.10 times in FY 2022 as against 0.08 times in FY 2021 and interest-coverage-ratio at 0.74 times in FY 2022 as against 0.32 times in FY 2021. Debt-EBIDTA of the company stood at 12.74 times in FY 2022 as against 36.15 times in FY 2021.

High Dependence on refinancing for sustainability of operations

KHIL has faced the various liquidity issues in the past which resulted in default in the bank loans and subsequently been taken over by various ARCs. Further, there were delays in the payment to ARCs and OTS has been done with various ARCs such as Phoenix ARC, Invent and ISARC and NDCs are received. However, repayment on account of OTS is pending for ACRE and IARC. The company is issuing the NCD and with the proceeds of NCD is planning to clear all the dues of ACRE, Edelweiss, IARC and of other group companies as well. However, the successful refinancing is dependent on compliance of various precedent conditions including one such condition with respect to signing of binding term sheet with the prospective purchaser for sale of VITS Mumbai prior to disbursement. With the cut off date from ACRE for payment of all the dues before 27th January 2023, timely refinancing of debt is a key sensitivity.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

Timely refinancing by issuance of NCD

Material Covenants

- The company shall maintain a security cover as follows:

1) Initial Security Cover- 1x of the facility amount
2) During the tenor of the facility- 2.5x of the facility amount

- Debt/EBITDA Ratio of 3.5x

Liquidity Position

Stretched

The liquidity position is stretched due to the losses reported by the company in FY 2021 and FY 2022, net cash accruals of the company are negative against the repayment obligation of Rs 233.05 Cr and Rs 386.37 Cr during the same tenure. Further, the current ratio of the company remains below unity throught last three years till FY 2022. However, with the debt refinancing and sale of VITS Mumbai, liquidity of KHIL may improve in near to medium term.

Outlook:

Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	144.58	66.02
PAT	Rs. Cr.	(22.67)	(36.29)
PAT Margin	(%)	(15.68)	(54.97)
Total Debt/Tangible Net Worth	Times	(2.62)	(3.04)
PBDIT/Interest	Times	0.74	0.32

Status of non-cooperation with previous CRA (if applicable)

None

Any Other Information

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Lack of third party monitoring of compliance in absence of executed trust deed and no finalized terms in absence of final term sheet

2. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE C

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued: The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Applicable Criteria

- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Service Sector: https://www.acuite.in/view-rating-criteria-50.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Jan 2023	Proposed Non Convertible Debentures	Long Term	27.50	ACUITE Provisional C (Assigned)
	Proposed Non Convertible Debentures	Long Term	297.50	ACUITE Provisional C (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE967C07015	Non-Convertible Debentures (NCD)	23 Jan 2023	14	22 Jan 2027	Simple / Complex	297.50	ACUITE C | Assigned | Provisional To Final
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple / Complex	27.50	Provisional | ACUITE C | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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